NIR Quarterly Newsletter

Providing Alternative Investment Strategies
Third Quarter Review 2008
October 2008

"'You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

- Peter Lynch

The N.I.R. Group, LLC

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Dear Partners,

2008 has turned out to be a tumultuous year across the global markets. What many financial experts theorized to be global decoupling has now proven to be a major economic interconnectivity. This has caused unilateral economic weakness across global markets. As a result, risks to the global economy and financial markets remain very high.

Recent developments in the credit markets have lead the government to do everything in their power to solve the current situation. The U.S. government approved the Bush/Paulson asset transfer, known as the "Troubled Asset Relief Program or TARP $700 billion bailout." This program did not provide the immediate confidence to sustain the markets. Immediately following the bill's approval, the S&P 500 declined 22.50% over the course of 6 days, its worst drop in history. The Dow Jones saw similar declines and had its worst week since its inception 112 years ago. As fear turned into shear panic, the Treasury announced another bold move. Treasury Secretary Paulson along with 6 other nations set in place policy to infuse capital directly into all banking institutions for ownership stakes. A similar plan was used in 1932 known as the Reconstruction Finance Corp., which was chartered by Herbert Hoover. This plan ultimately put the fragile banking system on a stronger footing, restoring the banking system 18 months later. It is certainly too early to tell if these plans will work, although I am very optimistic that over time these plans will be successful.

The alternative investment space performance has also been severely impacted on an absolute basis but outperforms the broad indices on a relative basis. As of September the HFRI index was down -4.95, while the MSCI World Index was down -13.50% YTD. The events of the year have caused undue stress on the entire hedge fund industry. The industry has learned how fragile hedge fund structures can be when fearful investors, looking to raise cash, simultaneously redeem. Many of the prominent multi-billion dollar single strategy funds have become too large to stay nimble to navigate the extreme volatility. As the industry has seen significant growth in terms of assets and the number of fund managers, a saturated market place has created crowded trades. This has made it difficult to produce market opportunities and generate alpha. It is now apparent to investors that many hedge funds have been disguised as long only managers without being well hedged, exposing their portfolio to high beta.

A fundamental issue of the alternative space has been the excessive use of leverage over the last bull market. This allowed mediocre managers the ability to produce outsized returns. In this environment many funds have been forced to sell to meet margin requirements, causing undue stress on market prices. The NIR Group has never employed any leverage and has never encountered forced liquidations. Unlike in stable environments, many hedge fund strategies have deviated from their historical volatility levels over the past 12 months, making it difficult to preserve investor's capital. Hedge fund money flows over the last two quarters have seen significant out flows vastly lead by the fund of funds which makes up 40% of the $2 trillion industry. Unfortunately, the industry is now seeing irrational behavior stemming from fear in the markets. The hedge fund industry has been hit with a liquidity shock impacting all strategies, leaving funds more concerned about operational issues, less risk taking and holding cash in anticipation of redemptions. Ultimately, the hedge fund industry will see a restructuring. However, NIR's niche strategy offers a unique advantage of owning positions that are not heavily hedge fund owned, which alleviates the danger of high volatility. In particular, we think there is extreme danger in months ahead with larger cap stocks owned by a broad majority of hedge funds which are experiencing deleveraging from redemptions. This deleveraging will put pressure on the markets near term.

As we look back on September, fear gripped even the strongest investors. The world watched from the sidelines in September with the demise of Lehman Brothers, and the near collapse of AIG, Wachovia, Merrill Lynch and Washington Mutual. The NIR Group held true to its investment objectives. September was one of the worst months on record for hedge funds, but AJW Qualified Partners continued to produce positive returns with 1.15% (net of fees / unaudited) for our investors. 2008 proves to be strong for The NIR Group on both an absolute and relative basis.

AJW Offshore, LTD is up 8.967% YTD (net of fees / unaudited). In dramatic contrast, the S&P 500 is down -26.10% and the HFRI fund weighted average index is down -4.95%. We maintain that the current dislocation in the credit markets and failure of many financial institutions creates an opportunistic environment in the direct investment space, which we anticipate will continue for many years to come. We do not expect a V-shape recovery anytime soon but, we do expect a prolonged U-shape recovery and will

potentially experience further deleveraging before this is all over. For the NIR Group's business model, deleveraging is not necessarily a crisis. Historically and fundamentally speaking, during a deleveraging period, capital has to be raised, which creates opportunity for The NIR Group.

In the interim, danger levels are clearly high. However, it is also true that the credit crisis has created return opportunities that are the best I have seen in my career. The fundamental breakdown has created investment opportunities that will allow us to focus on higher quality companies coupled with more favorable deal terms. For instance, we recently saw GE and Goldman Sachs selling 10% paper, so imagine what we are experiencing in our deal flow.

Looking back at past crises' the markets experienced, such as the Asian, Mexican, Russian and LTCM crisis, they all have been followed by a bull market. To bluntly state the obvious historical trends and patterns, with every bear market creates substantial opportunity to profit from fear. As we look out to 2009, a key priority will be to monitor for portfolio risk along with a sufficient cash level. Liquidity in every market has been greatly reduced. We have seen money market funds liquidity fall under great pressure in the last 30 days. This cycle of liquidity has affected every market. While our strategy was designed to meet many of our investors higher liquidity needs, it was designed to operate within normal market conditions.

Over the last decade it seems risk was buried under the proverbial rug and investors took excessive risk. Investors became fearless during this last decade of euphoric appreciation of home prices, incorporating large amounts of leverage and speculation. The NIR Group has never deviated from our strategy by following popular trends. Our model takes into account risk mitigation at every phase of the investment process. In making sure The NIR Group's portfolio is able to withstand the economic downturn, we view risk on a systematic and company specific basis. Portfolio risk is mitigated by the large diversity of the holdings in the portfolio; we currently have over 100 holdings. To manage liquidity and credit risk we invest in traunches. This is done by slowly infusing capital into a company as needed, rather than attempting to force the company to raise too much capital that it doesn't immediately require. These traunches are typically spread over a 2-4 year period. With this in mind, the portfolio was not designed to exit large blocks in short durations. Forced conversions will cause downward pressure on the portfolio, significantly impairing the portfolio.

The traunching structure protects the fund from being overweighed in large deals and also keeps the companies performing in order to get further capital. Over the last 12 months, we became more risk averse and more conscious of our cash level. We have lowered our typical traunch to under $1 million. These financings can be stopped at any time with no cost or detriment to the fund and NIR does extensive due diligence and credit work on all transactions. As for credit risk, we mitigate this by taking a senior secured position in each transaction, backing each investment by the company's enterprise value. NIR files a UCC-1 or security lien on all of the company's assets. This includes, but is not limited to, property/plant/equipment and intellectual property. When credit due diligence dictates that additional collateral may be needed, NIR takes collateral stock pledges from management of the company or management personal guarantees/assets. Lastly, the structure of the transaction is the key using the moving strike convertible note neutralizes beta and creates optionality reducing market exposure and volatility.

NIR's fundamental tenant is to protect our investor's capital. First and foremost, our responsibility is to exercise caution in the liquidity of our transactions and not to depress what are already stressed prices. We don't think it is in the best interest of the investors to push depressed prices further. Our transactions are performing well and we have not seen an increase in default ratios from the current market conditions. We must remind investors that our strategy has done exactly what it was designed to do, making 2 to 4 year investments. In addition, in our conscious effort of managing liquidity, no one investor makes up more than approximately 6.7% of strategy assets and I am the second largest investor.

Since the fund never utilized leverage, we have always managed the cash of the fund in tandem with the trading out of positions and the redemption cycle. For almost a decade, the fund has successfully balanced this relationship between new investments, liquidating current portfolio positions and redemptions. Due to the current environment and architecture of the funds structure we are faced with an obsolete liquidity structure. The shake-out in the equity markets has lead to fear and irrational selling in the equity markets. As investors look to redeem, this acting in concert brings about pressure, questioning

the liquidity terms under the current structure. The management of the fund believes that our investment philosophy and style is still a successful strategy which is demonstrating superior performance. Yet at this historical moment within the markets, these external forces acting in concert are causing the fund to alter its goals and objections.

Due to weak market conditions and the global markets flight to cash, we are proposing two new equity structures. We feel it is not just in the best interest of our investors. In many cases we have contractual obligations to provide continual financing for these companies. As I mentioned earlier, our strategy is performing very well on both an absolute and relative basis, while hedge fund performance has never been worse. Yet our liquidity structure remains as if the environment is operating under normal circumstances. This is unchartered territory for the global equity markets, and we suggest our partners to work with us during this period. The liquidity structure was created in 1999, under completely different market conditions.

The share classes affected by the proposal currently have quarterly redemption cycles, 120 calendar day notice periods, and fees of 2% p.a and 20% p.a. for management and performance respectively. In our analysis of the current market, we have taken into consideration the interests of all investors within the fund, and the protection of the assets of the fund. Based on this analysis, we believe all investors need to choose between alternative liquidity terms in order to protect the capital base of all the investors and permit the fund to operate within its strategy and maximize the value of the assets. Choosing to continue to operate the fund with the existing terms would sacrifice the overall portfolios performance for all investors. This proposal permits the entire investor base the greatest opportunity to work together to enable the strategy to continue along its path, with the goal of continuing to achieve the kind of returns we have all grown to enjoy. The first option would have a quarterly 1/8th gradual redemption cycle with 90 days notice, and fees of 1.5% p.a. and 17.50% p.a. for management and performance respectively. The second option is a three year lock up, and fees of 1% p.a. and 15.00% p.a. for management and performance respectively. After the 3 year lockup is over the fund will resume to the following options; quarterly redemption cycles with 120 calendar day notice period or the same 3 year lock with the same reduced fees. Investors who do not elect the following options above will be segregated into a liquidation pool with fees of 2% p.a and 20% p.a. for management and performance respectively and liquidated subject upon market conditions. *Please see letter herein for further details.*

NIR's goal for the next 12 months is as follows:

- Strike deals and take advantage of opportunities we think are truly remarkable and provide a compelling risk/reward.
- Focus on the current portfolio to monitor risk and stress from economic weakness.
- Create more transparency for our investors going forward.
- Manage our cash levels.

Since our inception in 1999, The NIR Group has produced a 24% compounded ROR with little volatility and have had positive returns in 114 out of 117 months. Many of our investors have been with NIR since our launch and we are truly grateful for your continued support. We are honored that you have entrusted us with your hard earned capital even in tough times, such as 9/11 and the 2002 recession, when you kept faith in our business model. We continue to feel positive about the job we have done in delivering returns and look forward to providing you with the same level of return in the future.

On behalf of the Partners, we thank you!

Best Regards,

Corey Ribotsky

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Fourth Quarter Outlook

PIPES / Direct Investments

As I previously mentioned, I haven't seen such a vast and deep opportunity in the direct investment space as the current environment. This opportunity brought about by the credit crunch is beyond short repair and fundamental damage has now occurred in the real economy. Restoration of the capital markets will take longer than the market anticipates and presumably will never be the same. As I briefly mentioned, there are several factors why the healing process will take longer than first expected. One reason is the fundamental shift in the US business cycle. The US has seen significant economic expansion over last 10 to 15 years brought about by an excess level of leverage causing excessive risk taking. A fundamental issue we face with the deleveraging process is the loss of jobs, depressed asset prices, loan losses and contraction in GDP. We believe this process has another 12 months in the deleveraging phase and recovery will take place in the subsequent 24 months. This deleveraging phase will bring about unprecedented investment opportunity that many investors have not witnessed before. Capital raising process is a vital component in this healing process to restore the economic growth.

As we are witnessing, credit markets have nearly frozen to the point of inoperability. On October 7th The Federal Reserve elected to create a special fund to purchase U.S. commercial paper after the credit crunch threatened to cut off a key source of funding for corporations. The Fed's reaction is a bold move and they are clearly ready to take action to prevent a complete seizing in the credit market.

Ultimately, the credit markets will loosen up, confidence will resume, and speculators will come back into the real estate and equity markets. I think we will have a better sense of just how long this process will take once Hank Paulson's $700 billion bailout plan (Troubled Asset Relief Program) starts buying unwanted assets.

NIR the Road Ahead

Economists feel that falling home prices and subprime mortgages will total $4 trillion in losses, so far we have only see $325 billion in losses. Large corporations are firming up their balance sheets at historically high cost of capital, i.e. (Goldman Sachs & GE). Commercial banks will be forced to hold on to precious capital, be restricted in their lending and will be forced to reduce loan exposure.

Going forward those investors who elect to take risk will ultimately be rewarded handsomely with outsized returns. Our model provides a significant advantage to other alternative models. Investor's principal is protected utilizing a senior secured position against the company's assets, while eliminating market exposure with our built-in optionality of the convertible moving strike.

Notable Transactions

In terms of deal highlights, the following are examples of two companies that we added to our portfolio:

- The first Company is a professional mixed martial arts event promotion and global production company. They specialize in concept-driven brands for vertical broadcast markets. In 2007, the Company produced four premiere events at world class arenas in addition to broadcasting four live events. The live events include two with HDNet and one with Pay-Per-View. The Company is developing and producing TV shows along with live pay-per-view events. The Company distributes television content that is designed to: drive television rating; drive pay-per-view purchases; increase live event attendance; boost internet traffic; gain additional sponsorship support and improve branded merchandise sales.

Over the past few years, the mixed martial arts industry has experienced explosive worldwide growth. Led by the Ultimate Fighting Championship (UFC), the industry has expanded to include live events, pay-per-view specials, reality television shows, merchandising and video games. For example, the UFC's September 8, 2007 title fight on Spike TV drew 4.7 million viewers, making it the most-watched mixed martial arts event ever in North America. In 2006, the UFC broke the pay-per-view industry's all-time records for a single year of business, generating over $222,766,000 in revenue surpassing WWE and boxing. As stated by L. Jon Wertheim of Sports Illustrated "MMA events do bigger pay-per-view numbers than pro wrestling or boxing cards this side of Mayweather-De La Hoya."

The Company's current business model is driven by concepts targeted toward specific demographic markets with open opportunities for both branding and profit. Their model is flexible enough for both MMA and television to meet current and new demands from different markets. With the UFC monopolizing the PPV universe, the Company's strategy lies in developing short and long term television projects that fall outside the saturated MMA universe.

The strong foundation and future success of this Company can be attributed to the dedicated and diligent management team. Their combined years of expertise and insight allowed for them to penetrate the market place while driving revenues to new highs. With additional support from institutional investors, the Company's growth model outlined in their business plan has already proven to take effect.

- The second Company is a developer and marketer of a cutting edge medical billing software technology. The roots of this technology began to grow back in 2003 when the founders teamed up with a national medical billing company in Southern California. They spent over 5 years developing this unique, highly flexible suite of practice management applications.

The Company is launching its products at medical facilities across the country enabling them access to utilize the company's comprehensive, full-service medical practice management software. This technology drastically reduces the time it takes to process the code, enter data, file information, follow-up and collect on current and past due insurance claims. The billing software could potentially save up to 50% of billing costs and may generate as much as 30% more revenue for doctors by submitting accurate claims. The data entry interface simplifies the overall insurance claim and medical billing cycle to assure accuracy and timely submission.

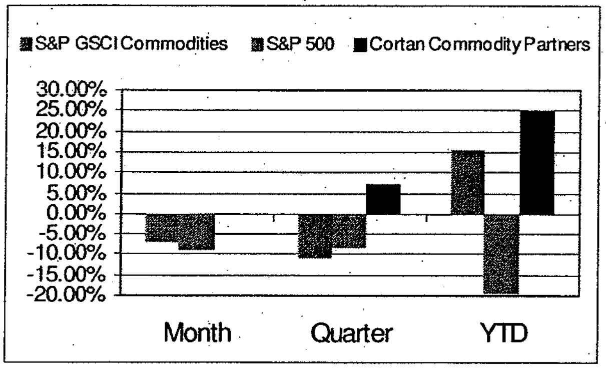
The benefit of utilizing this technology is cost savings and a higher level of cash flow for the medical operator.

The consumer can immediately and directly input their claims to the insurance companies via the Company's product. A secondary feature of this technology is its ability to generate management reports, analysis and financial reports to supply the healthcare provider with control over the medical practice. Users of the technology can access the reports over the internet for real time analysis. In addition, the software can generate transactional journals and detail ledgers to provide an accurate overall picture of the client's medical practice.

The Company's persistence in developing their product for commercial use has allowed for them to emerge from a developmental stage company to an emerging growth company. They are currently seeking various acquisitions to grow the business within their market sector.

Commodities

NIR Group would like to introduce Cortan Commodity Partners. Started in November 2007, it is managed by Howard Tanney, a 25 year veteran of trading in the energy markets.



Manager Commentary

The summer run up in commodities prices as investors were looking for a hedge against the falling dollar and China's "Olympic push" is a distant memory. As a combination of a worsening macroeconomic environment tied to the credit crisis and increased selling from index funds all suspecting weaker economies leading to weaker demand has contributed to keep commodities prices down.

The weak demand environment along with the bearish market influences has helped keep prices down and will continue unless there is fundamental change in the demand models for the underlying commodities. All technical charts point to a continuing bearish bias for commodities in the near term as well.

However, we must also keep in mind the geopolitical threats that exist in the Middle East as well as developing nations' thirst for commodities.

All of this represents significant return opportunities as the volume, volatility and liquidity of the commodity markets is very robust.

Credit

For those of you who are not familiar with NIR Credit Partners we would like to formally introduce our team. NIR Credit Partners, LLC (NIR Credit) was established in 2005 as an alternative asset manager targeting investment opportunities in the structured finance market. Assets under management total $7.3 billion at the first quarter 2008. The firm's core strategy is focused on asset classes that require structuring expertise and offer liquidity premiums. NIR Credit Partners is run by Joe Parish and Scott Shannon.

NIR Capital Management is launching Credit Opportunity Fund II focusing on distressed credit in the RMBS market. The portfolio managers bring 20 years of experience in the structured finance market.

Distressed credit is one of the most compelling investment themes for 2009 & 2010. Over the past year we have built out our capability to analyze and assess delinquent mortgage assets. We are very excited about the return prospects since we feel the Bush bailout plan will put a back stop on declining home values and jump start the credit markets. We feel that many players deployed capital into this area too early, and over the next 6 months will be the right entry point.

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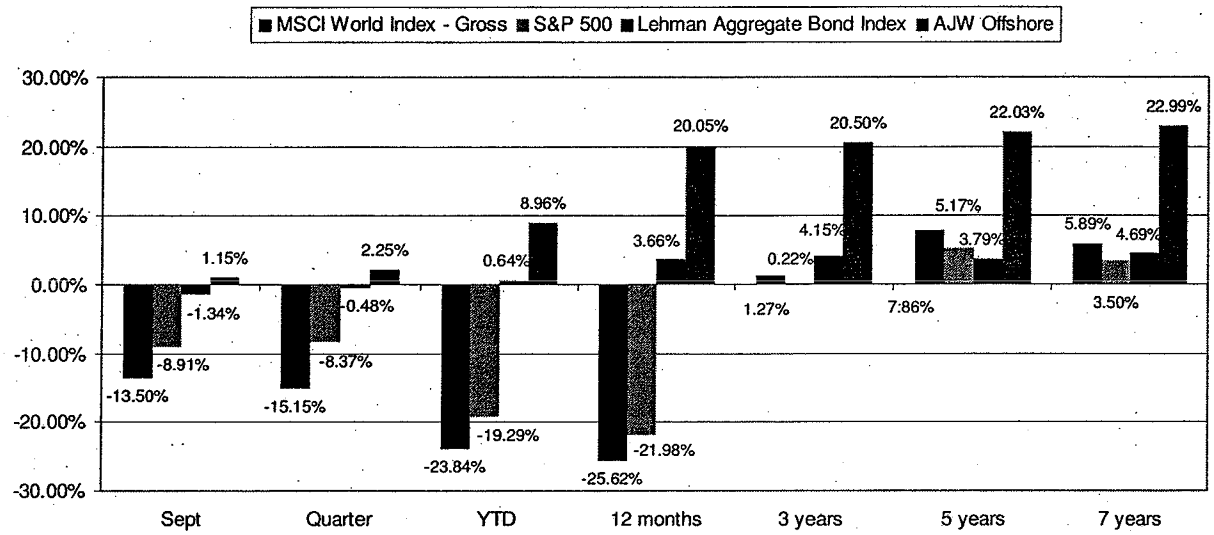
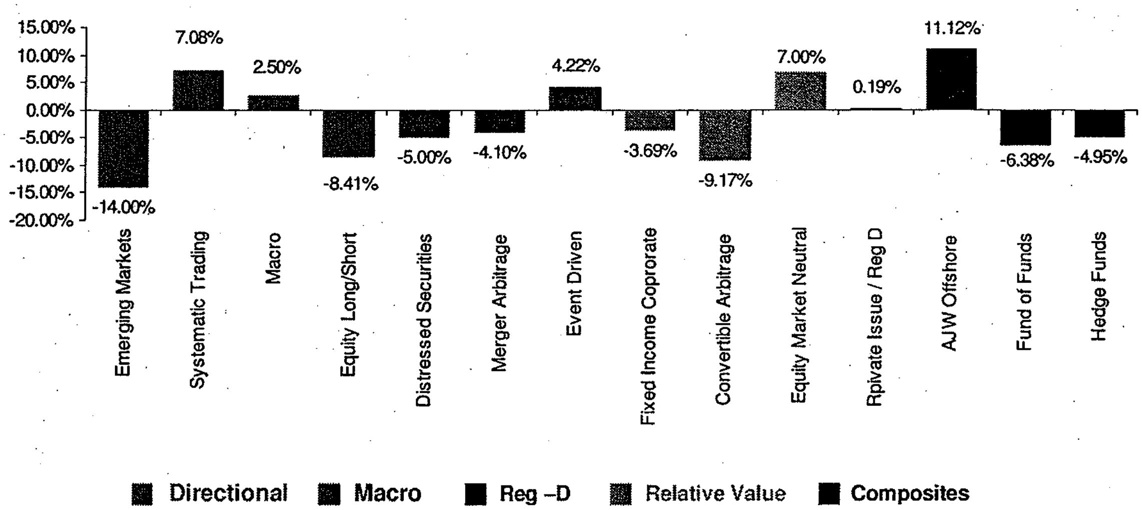
Monitor
Major Indices



Source: HFRI Fund of Funds Composite Index, Each index shown as if the index was at 1,000 as of 1.1.1999. The chart displayed above is intended solely for illustrative purposes and encompasses the time period January 1990 through March 2008. The indices are not intended to track each other as they follow different investment strategies, and different results over similar periods can be expected.
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Strategy Performance YTD 2008



YTD (%) hedge funds indices from HFRI.

Performance last updated: 10/1/2008.
HFRI (hedge fund) weighted Composite Index currently includes over 2000 constituent funds. HFRI fund of Funds Composite Index currently includes over 800 constituent funds.